MICROENTERPRISE INNOVATION PROJECT—MICROSERVE

Contract No. PCE-I-00-95-00034-00
Project No. 940-0406-5692345

FAULU KENYA—INSTITUTIONAL FIELD ASSESSMENT

Institutional Assessment Report
Delivery Order No. 7

by:
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Submitted to:
USAID, G/EG/MD

Submitted by:
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with
Agriculture Cooperative Development International
Asociación para el Desarrollo de Microempresas, Inc.
CARANA Corporation

June 1997

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Global Bureau
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Washington, D.C.

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ABSTRACT

A pre-award assessment for a potential IGP grant to Faulu/Kenya was carried out by Annica Jansen, Microenterprise Global Bureau and Karl Jensen, Chemonics International Inc. from May 19 to 29, 1997. While some recent problems with timely repayment are being experienced by Faulu/K, the organization, both its leadership and staff, appeared to be well-trained and highly motivated. This report identifies both the strengths and the weaknesses of Faulu/Kenya, and recommends that a modest grant be made to assist the organization in overcoming current problems before widespread expansion occurs.

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EXECUTIVE SUMMARY

The Implementation Grant Program (IGP) is a component of USAID's Microenterprise Innovation Project (MIP) in the USAID Office of Microenterprise Development. IGP provides grants to international private voluntary organizations, cooperatives, credit unions, and developing country organizations capable of working in more than one country to support the development of indigenous organizations involved in microenterprise promotion and service delivery. The goals of IGP are: to increase the ability of local institutions to achieve increased outreach and scale of microenterprise services, to help them move toward higher levels of financial viability, and to improve the quality and efficiency of financial reporting and internal administration.

In January 1997, Faulu/Africa and its parent organization, Food for the Hungry International, applied to the USAID Office of Microenterprise Development for an IGP grant to expand Faulu/Kenya (Faulu/K). Specifically, Faulu/K would use these funds to:

- Provide additional loan capital to four existing branches
- Add three branches, including more rural areas
- Add poverty loan division targeted to women
- Provide individual loans to solidarity group graduates
- Generally increase cost effectiveness

It should be noted first and foremost that Faulu/Kenya, throughout it management and staff levels, were very open and straightforward with the Assessment Team. While several questions were raised, Faulu/K always supplied data and information requested.

In general, the application was found to be overly ambitious, and appeared to be an application for grant rather than a business plan that could eventually lead them to at least operational breakeven. Faulu/K is currently experiencing some repayment problems and is experiencing some degree of client dropout.

The application requests USD 3,250,000. It is recommended that a lesser amount be provided, following submission of a business plan. The IGP could supply assistance that would concentrate on both consolidating current successes and resolving problems that are being experienced with client drop-out and increasing late repayments. Without suggesting what an applicant should apply for, acceptable activities might be:

- Generate new approaches to increasing the borrower load of existing loan officers to make them and the organization more cost effective
- Focus the grant specifically on a limited number of existing branches to help resolve some of the issues identified in this assessment and develop criteria for when new branches will be opened
- Continue to develop the individual loan product (which would clearly be inclusive of women borrowers) and a poverty lending product directed at women
- Develop incentive programs for loan officers/and or staff based on objective criteria related to portfolio performance

SECTION I
INSTITUTIONAL OVERVIEW

A. Origin

Faulu Kenya began in 1991 as a pilot project of Food for the Hungry International (FHI) in the Mathare slums of Nairobi. Faulu/K comprises about 87 staff, distributed among a head office and four branch offices. Outreach of the branch offices is further expanded through the use of satellite offices that are used as a place for groups to meet and bring deposit slips and for loan officers to review and prepare records. Loan officers disburse loan checks to clients, but otherwise do not handle loan funds or payments.

History of Faulu Kenya

Start-up
1991 Pilot project of FHI operating in Mathare slums of Nairobi
1992 Became Faulu Loan Program
1993 Expansion strategy developed
1994 Faulu Kenya became unit within newly formed Faulu Africa
Opened Nairobi East branch (called Embakasi branch until 1996)

Expansion
1995 ODA and USAID Matching Grant funding began
1996 Mathare Branch renamed Nairobi Central
Nairobi West branch opened
Mt. Kenya branch opened

Faulu/K remains a program within FH Kenya, which is registered under the Kenya Non-Governmental Organizations Act of 1990. Faulu/K is a founding member of KEMFI, the Kenya Microfinance Network.

Vision statement. Our vision is of a nation where all people are able to work toward fulfilling their dreams and potential for the future, and have the dignity of being able to provide for their own needs and the needs of others.

Mission statement. The mission of Faulu/K microfinance programme is to assist the low income urban and rural people to increase their income levels through participation in a loan programme that fosters good business ethics and values, and which encourages an attitude of self-reliance and democratic participation, so that they are capable of determining and meeting their development needs.

B. Board of Directors

Faulu/K does not have a Board of Directors, *per se*, but instead oversight is provided by an Advisory Board. Currently the Advisory Board comprises seven members. When Faulu/K becomes an independent legal entity the advisory board will be replaced by a Board of Directors.Until that time, since Faulu/K is a program within Food for the Hungry International (FHI), it is the FHI board that has the ultimate decision authority in Faulu/K. The Faulu/K board meets quarterly.

Faulu/K Advisory Board Members - 28 January 1997

John Macharia, Chairman. Founder and Director of Kali Security Company, Ltd. and Operations Security Systems (K) Ltd.

Ted Vail. Founder and managing Director of Faulu Africa. (MBA)

Pete Ondeng. Director, Faulu/K. (CPA) (Position on board is part of role of director)

Valentine Gitoho. Financial and Tax Consultant. CPA and CPS (Certified Public Secretary)

Kenneth Wathome. Licensed Property Valuer.

Usha Khosla. Country Director, Food for the Hungry International. (1995-)

Carol Winninge. Former Country Director, Food for the Hungry International. (1990-1995)

C. Procedures for Financial Planning and Analysis

Faulu does undergo a certain amount of financial planning and analysis. Faulu/K head office prepares monthly Profitability Statements and Balance Sheets. In the Profitability Statement, actual income and expenditures are compared to budgeted figures. In the balance sheet assets and liabilities are compared to the previous year-end figures.

An external audit of fiscal year 1995 (ending 31 December 1995) was completed by Coopers & Lybrand in August 1996. The auditors' finding was that “proper books of accounts have been kept and the accounts give a true and fair view of the state of affairs ....” A second audit is underway. The field work has been completed and Faulu is expecting a draft report by the end of this week, May 30, 1997.

Faulu/K just recently hired an accountant who Faulu hopes will eventually be able to take on the role of Head Accountant. This will free up their current Financial Manager to develop a financial cash flow system.

D. Internal Control

Internal controls are currently maintained through access to the computer systems, co-signatures, and multiple copies of bank records. Transfers in and out of branch accounts requires the signature of the branch manager and one of the following head office staff: Operations Manager, Finance Manager, or Director of Faulu/K.

After clients deposit loan payments into the Faulu Branch account, they return one copy of the deposit slip (retaining one copy) to the loan officer at the branch or a satellite office. The loan officer records the deposit on a Periodic Transaction Record. Receipts data are entered into the computer and compared with bank records on a weekly basis. The bank reconciliation is reviewed by the branch office weekly and at the head office monthly.

Three people have access to the branch financial computer files, the data entry person, the accounts assistant, and the branch accountant. The branch manager does not have access. At the branch level all staff have the same level of access. At the head office, access is limited to the four people in the accounting office. Level of access varies with need.

E. Institutional Linkages

Faulu Kenya's main institutional linkage is with Faulu Africa. The two organization's share the same headquarters with staff working in close collaboration. For example, the Faulu/Africa Controller and the Faulu/K Financial Manager have covered each other's positions. The MIS manager for Faulu/K and MIS manager for Faulu/Africa share the same space. The Faulu/K training officer and the Faulu/Africa Research and Evaluation coordinator work in the same general space.

Faulu/K is linked to other MFIs through the newly emerging Kenya Micro Finance Network (KEMFI). Faulu/K is one of the founding members of KEMFI which is currently coordinated by Aleke Dondo, K-REP. The network is in very early states of development, but does provide a potential vehicle for linkages.

Faulu/K's main competitors (though Faulu is reluctant to use that term) are K-REP, the Kenya Women's Trust Fund (KWTF), and CARE, with K-REP and KWTF being the most salient. Competitors in the Mt. Kenya area are PRIDE Kenya and CARE.

According to the Faulu/K communications officer, Faulu/K distinguishes itself from other programs by its staff, their approach, and the treatment of clients. Faulu feels it provides better follow up to information queries than other programs and that it treats clients with a “more human touch.”

Also, groups that might be formed by another NGO, e.g., ActionAid, become potential borrower groups for Faulu/K.

F. Organizational Charts

Faulu/Kenya is a component of Faulu Africa. Peter Ondeng was recently brought in as Faulu/K Director, replacing Ted Vail who is now solely Director of Faulu Africa. Ondeng reports to Ted Vail, and Vail reports to Randall Hoag, the Executive Vice President of International Operations for FHI. Oversight of Faulu/K will be provided by a Faulu/Africa Internal Auditor if and when that position is filled.

The organizational charts of both Faulu/K and Faulu Africa are presented on pages 4 and 5. As these illustrate, Faulu/K is a well developed hierarchy. However, there is considerable coordination across branches through weekly management meetings. In addition, there are plans to develop an in-house newsletter for staff to share information and to provide information to staff.

organizational chart 1

organization chart 2

Staffing. There are currently about 87 staff throughout the Faulu system. There are 30 loan officers who carry loan portfolios, three who share these portfolios, four relieving loan officers, and 5 trainees.

In addition to 6 to 10 loan officers, each branch has a manager, a branch accountant, and an accounts assistant. Other staff, depending on the maturity and size of the branch are: data input operator, office assistant, receptionist, housekeeper, day guard, night guard. At one point a number of “casual” workers were used for data entry. But it was felt that this was becoming a potential security risk. In addition, if data entry errors were later found it was difficult to trace the source. The use of casual workers has been replaced with “trainees.” There are five loan officer trainees in the Faulu/K system. The trainees, along with relieving officers, serve as utility players and are eventually able to work at all branches in a variety of situations. The salaries and benefits are the same as the regular loan officers.

Background sought in loan officers is a degree in Social Sciences, an out-going personality, and some management training.

Staff turnover is a concern for Faulu. For example, Nairobi East branch lost about 12 loan officers in 1995 and 1996. One left to join another MFI, two went to NGOs, and several left to training and further studies. The remaining left to work in their family's business. Faulu/K is challenged to retain its highly educated staff. For example, in the Nairobi East branch among the seven Loan Officers, five had bachelor degrees and two had post graduate degrees. Degrees include Commerce and Accounting, Business Administration, Community Development, Merchandizing, Sociology, Linguistics, and Economics. One finding of the ODA mid-term review of Faulu was that loan officers were concerned about their long-term career possibilities at Faulu. Most of the loan officers who have left, left to pursue more education. Two moved to other organizations, and a few left to join family businesses.

Skills interviewed loan officers find necessary for their jobs include:

- Interpersonal and communication skills
- Underwriting skills

Training is provided almost exclusively in house. The exceptions are community organizing training provided by Action Aid, and occasional in-country microfinance courses offered by Cranfield. Initial training consists of three months of training before actually having a loan portfolio. Training consists of :

Classroom training (one month)
- Operations manual, page-by-page
- Orientation by current loan officers
- Vision and objectives of Faulu
- MIS
- Review of all forms used

Field and on-the-job training (two months)
- Business enumeration
- Meet with community leaders

- Map potential areas citing business concentration, access routes, etc.
- Attachment to a client for 3-4 days (this is part of the training of staff at all positions)
- Attachment to branch staff in similar or same position after two months

Decentralization. Portfolio management occurs at the Branch level, with a high level of coordination between branches and the head office. Portfolio performance reports are prepared weekly at the branch level on Fridays (and Saturdays if needed) and arrive Monday morning at the head office. There the reports are collated for Tuesday morning meeting when all branch managers and head office management meet to review portfolio status.

Each branch has a separate bank account (joint Faulu/FHI), used exclusively for lending and loan security funds, from which loans are disbursed and payments are made. Loan funds are apportioned by the head office via loan disbursements from the branch account at Standard Charter. Branch offices are encouraged to only keep in their accounts the amount they would disburse in two to three weeks. The remaining funds are transferred to the head office account and used to purchase treasury bills. Most T-bills are 91 days, currently paying an interest rate of about 20 percent.[1] Branches do not pay for lending capital apportioned by the head office, nor does the head office pay earnings to the branch for funds deposited in Treasury Bills.

Each branch maintains a Petty Cash account, with 20,000 Ksh. lasting about three weeks. 1,000 Ksh. (about $US 20) is about the maximum single expenditure that would be made using Petty Cash. Other expenditures are computed and approved at the Branch level, but disbursed from Head Office accounts. Reporting on this expenditures is prepared by the head office. The General Ledger and Profitability Statements are then sent to the Branch office for review and verification.

Staffing matters are also handled by the branch managers as a group. For example, if it is decided that a new position needs to be added the branch managers discuss this among themselves, and then with the Faulu/K director. The advisory committee and FHI at some point would be informed of the decision.

G. Comments on Strengths and Weaknesses of Faulu Kenya

Operating capacity. Faulu/K readily admits that it is currently operating with excess capacity. For example, Faulu uses the approach that it will hire all loan officers for a branch as it opens because, the reason given, this is more cost effective. As later figures show, the staff are currently carrying a clientele and loan portfolio far below targeted levels.

Staff. The staff appear well selected and well trained. The attachments to microenterprise clients and to staff prior to assuming position are seen as very effective in orienting staff. Faulu/K has decentralized operations that seem to be functioning well.

Expansion. Faulu/K is at risk of expanding before developing, and may already be too far in this direction. While serious repayment problems were surfacing in its two older branches, Faulu/K went ahead with plans to open two new branch offices. Before determining what, or in what ways, methodology might be a problem it was replicated in two new branches.

External risk environment. External risks faced by Faulu/K center mainly on the financial

Daily Nation. Results of Treasury Bills Tender No. 1210, May 26, 1997. p. A12.

environment. A major risk is the cultural attitude toward loan repayment and reliance on others to cover financial debt.

Faulu, like any development organization, runs the risk of losing well-trained ambitious staff.

Faulu faces the salary and benefit costs of employing an educated staff. However the staff can be expected to be self-directed and -motivated and should prove to be an asset when it comes to developing and implementing new approaches.

SECTION II
MANAGEMENT INFORMATION SYSTEM

A. Financial/Accounting

The system appears to be open and transparent. Salary and expense data are readily available, and the Faulu organization provides data to the donors on a regular basis. According to information provided to the Assessment Team, there is not currently an internal auditor for the organization. However, an external audit carried out by a locally-based international organization, Coopers and Lybrand, in August 1995 and found the financial report of Faulu to be accurate.

B. Loan Tracking System

The reporting system of Faulu/Kenya appears to be fairly timely. The "Microbanker" software system is used in the four branch offices, but does not lend itself to rapid compilation at the central level. In response, the headquarters office, after receiving the weekly reports each Monday compiles a summary version of the data in a customized FoxPro spreadsheet program. The MIS department has manuals that give very specific guidance to each person involved in the program, with clear assignment as to which employee fills out, processes, or compiles the information.

It does not appear at present that headquarters is in a position to rapidly respond to loan repayment problems; the onus is rather on the local branch, the loan officers, and the groups. Delinquency reports are regularly produced, but the organization has not been able, at this point in time, to deal adequately with these problems.

C. Programmatic (Reports Utilized)

Faulu/Kenya provided complete data on both past and current organizational performance. The reports most relevant to this section of the Assessment are:

1. Annual Report, October 1994-December 1995
2. Quarterly Report, 1 January-31 March 1997
3. Audit Report for the year ending 1995 (dated May 2 1996)
4. Monthly Monitoring Report, January, February, March, and April 1997, including data from all four branches currently in operation
5. Profitability Statement for Year-End 1996
6. Faulu/Kenya Five Year Business Plan (CY1997-2000)

D. Controls

It appears, based on the audit information from 1995 provided, that bank reconciliations are adequate. It has already been noted that the position of internal auditor has not been filled. Separate systems are being utilized at present between portfolio and accounting management, but the manual systems being utilized are adequate for the limited size of the program.

SECTION III
VERIFICATION OF FINANCIAL DATA

A. Balance Sheet

A profit and loss sheet is shown later in the document to indicate income and expenses. Cash in banks and on hand is 16% of total capital held as outstanding loans and as Treasury Bill investments. The most recent audited balance sheet available, dated 5 August 1996 but referring year-end 1995, is shown below.

Table III-1. Balance Sheet(s)

Audited Figures for Year End 95
Unaudited Figures for Year End 96
(All in Ksh.)

ASSETS	**CY 96**	**CY 95**
Cash in Bank and Bank Balances	6,962,726	5,765,097
Government Securities	63,742,760	-
Advances to Customers	37,637,366	34,363,951
Other Loans	4,055,139	1,856,149
Prepaid Expenses/Other Receivables	2,812,513	441,623
Grants Receivable (ODA)	-	19,155,801
Property and Equipment (Depreciated)	9,647,305	-
Total Assets	124,857,809	61,582,621
LIABILITIES		
Catastrophic Insurance Fund Premiums	2,209,053	1,120,725
Loan Security Fund Deposits	31,786,815	18,851,654
Bonus Payable on Deposits	-	667,748
Amounts Due Client Groups	352,128	246,428
Other Liabilities	918,999	875,920
Amounts Due to Related Organizations	5,397,682	87,307
Total Liabilities	40,664,667	21,849,782
CAPITAL RESOURCES		
Capital from Grants	49,653,923	32,192,835
Retained Net Surplus	34,539,209	7,540,004
Total Capital Resources	84,193,132	39,732,839
Total Liabilities and Capital Resources	124,857,809	61,582,621

A1. Assets

A1a. Cash Due from Banks and Investments

Faulu/Kenya currently has over Ksh. 70 million invested in banks and government securities (T-Bills). Prepaid expenses are currently about Ksh. 2.8 million, and property and equipment, net of depreciation, are reported as Ksh. 9.6 million. Outstanding loans, which are traditionally the largest asset (receivable) are reported as Ksh. 37.6 million. No formalized banking facility has provided funds to Faulu/Kenya, so no debt to banks are listed. The sole sources of funds available to Faulu/K at present are grants and interest income.

A1b. Loan Portfolio

Loan funds are almost entirely from grants, though a small portion of loan funds are from retained earnings.

Year-end portfolio status. Faulu Kenya's portfolio had shown continuous growth until the end of 1996/beginning of 1997 when it showed a precipitous drop. Loan size has also grown, no doubt reflecting the increased loan size of repeat borrowers.

Table III-2. Year-End Portfolio Size
($US)

Portfolio Indicators	1994 EOY	1995 EOY	1996 EOY	1997 17 May 1997
Amount Outstanding Loans	135,907	632,742	873,092	492,587
Number Outstanding Loans	768	2,811	3,412	1,779
Average Loan Size	176.96	225.09	255.89	276.90

Sources:
1994 data is Faulu Kenya Expansion Plan 2000 submitted to USAID 20 January 1997. An estimated exchange rate of $US 1 = Ksh. 50 was used to convert Ksh. to $US.
1995 and 1996 data Annual Reports Faulu Africa for respective year, using Faulu's $US figures.
1997 data Weekly Reports, using Faulu cited exchange rate of Ksh. 54.7/US$

Self-sufficiency.* *Using 1996 Income Statement figures shows the following in terms of Operational and Financial Self-Sufficiency:

Total Operating Income	***Ksh. 16,405,894***
Total Operating Expenses	***Ksh. 33,211,860***
Operational Self Sufficiency	***49.4%***

Using data, again from 1996, reveals the following:

Inflation and prime rate lending are about 16%.	
Average Loan Portfolio	*Ksh. 49,694,145*
Multiplier for Cost of Funds (.16)	*Ksh. 7,951,063*
Interest Paid on Loan Guarantee Funds	*Ksh. 38,454,536*
Total Cost of Funds	*Ksh. 46,405,599*
Total Operating Income	*Ksh. 16,405,599*
Total Expenses (Operations and Financial)	*Ksh. 46,405,599*
Financial Self-Sufficiency	***35.4%***

Note: *The income that Faulu earns on its T-Bills is not included above because this figure is used to compare across organizations. Investment income is left out in order to compare organizations that may or may not have large cash-on-hand balances. If investment income by Faulu/K is included, Financial Self-Sufficiency would be 50%.*

Credit product. *The primary credit product is group guaranteed individual loans. Solidarity groups of 5 people (Watano) self-select and are joined together in a group of 40 (Shirika) by the loan officer. This is equivalent to the K-REP Juhudi or the Grameen Kendra.*

A second, much less used loan product, is a group loan offered through vikundi, or "on-lending group" (OLG). The OLG methodology or product is a bulk loan to a pre-existing group, and is a variant of the K-REP chikola. This methodology is currently being reviewed for effectiveness and appropriateness. There have only been six chikola to date, and currently there are only three vikundi, all operating out of the Nairobi Central Branch. The other three groups were changed to a solidarity group, Shirika, methodology.

The shirika is the main operating vehicle of the Faulu methodology with loans being approved of, disbursed, and collected through the shirika.

For the individual loans, a minimum loan size for every cycle is 1,000 Ksh. This is to ensure that individual borrowers are not forced to a higher loan level than needed. Available loan size is given in Table III-3.

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Table III-3. Available Loan Size

Loan Number	Loan Range (Ksh.)	Maximum Possible with Written Exception of Branch Manager
1	1,000 - 15,000	20,000
2	1,000 - 25,000	30,000
3	1,000 - 35,000	45,000
4	1,000 - 50,000	60,000
5 and more	1,000 - 75,000	case-by-case

Because Faulu/Kenya is not a legal entity, but a program within Food for the Hungry, International (FHI), it cannot legally accept savings. In order to ensure security for its loan portfolio, Faulu/K requires security funds deposited through a Loan Security Fund (LSF). Before the initial loan, clients are required to make weekly deposits equal to 1 percent of the face value of the requested loan for 8 weeks before the loan is disbursed on through the week of the final loan payment. For subsequent loans, a deposit of 25 percent of the face value is required prior to the loan, and 1% weekly payments are again required.

A "bonus" of (currently) 8 percent per annum is paid to the accounts. This is accrued on a monthly basis and credited to accounts June 30 and December 31.

Other pre-loan expenses include:

- *Loan Set-Up Fee: 1 percent of 200 Ksh. min*
- *Catastrophic Insurance: 1 percent (non-refundable)*
- *Loan Orientation Seminar: 150 Ksh. plus client purchased materials (1st loan)*
- *Faulu Registration Fee: 100 Ksh. (1st loan)*

***Market being reached.** Faulu/Kenya was initially targeting Kenya's lowest 40 percent in terms of income group. An ODA mid-term evaluation was conducted in September 1996. What the authors found is that few of Faulu Kenya's clients are from the poorest 25 percent of the population. While the evaluators expressed a certain concern about this, they also suggested it is in Faulu/K's interest to not turn away from a naturally emerging client group even though they are of a higher income level than those originally targeted.*

Geographic areas are targeted through survey and mapping, and business enumeration. Faulu/K is particularly interested in targeting small-scale manufacturers and women. Each loan officer has a target of at least 50 percent women and greater than 60 percent manufacturing. A clientele per officer of less than 50 percent women is allowed as long as the branch as a whole as a clientele of at least 50 percent women. While manufacturing clients are sought, clients are primarily vendors.

***Credit methodologies.** As stated in the section above "credit products," there are two loan products, the individual loan which is administered through shirika and the group loan, administered through vikundi. Due to the current moratorium on vikundi only the shirika will be discussed.*

***Loan administration and loan tracking.** The loan officers at the Nairobi East branch estimated that from the time of initial contact to disbursement of first loan is about two months. Operation first begins in an area with the Branch Manager, and possibly the Operations Manager meeting with the District Officer and the District Development Committee, and local administration officials. These meetings are followed by one or two public informational meetings at which loan officers might distribute flyers detailing the credit methodology. The public meetings are offered during a two-week period at different times and places, near business concentrations. During these meetings loan officers explain the rules, regulations, and loan policies. The next step is a meeting between the loan officer and potential watano groups. The loan officer assesses each client to verify business ownership, assess character, and verify that the potential client understands Faulu/K rules and regulations.*

The loan screening process is thorough. Once a group of five (Watano) has self-identified *and is grouped into a larger shirika, the loan officer completes an extensive 15-page "Group Assessment Checklist." The results from this are used to determine if the group should be a solidarity group or an on-lending group (OLG). However, at this time formation of an OLG is unlikely. After completing the checklist the loan officer fills out an Assessment Summary Sheet, which gives the groups history, savings and lending experience, scores on skills in underwriting, business, accounting and loan tracking, default management, group management and leadership, and match with Faulu's vision, as well as groups financial status.*

Other pre-loan forms completed include:

- *Prescription Form (gives shirika committee's recommendation, and Faulu decision)*
- *Members Profile (gives gender, business, assets of each client)*
- *Loan Approval Sheet*
- *Solidarity Group Loan Application*
- *Solidarity Group Loan Agreement*
- *Solidarity Group Guarantee*
- *Asset Schedule (one for each borrower, verified by solidarity group)*
- *Consent of Spouse (or companion) verifying assets and use as loan security*
- *Affidavit (giving permission to other solidarity group members to seize and sell property in case of default).*

The affidavit is the most recently developed form. It was put into use after problems emerged in the Nairobi East branch. All new borrowers are required to sign the affidavit. All active borrowers at the time it was implemented also were asked to sign but, not surprisingly, those who were in serious arrears refused to sign.

The Loan Orientation process, which is done with the entire shirika, is extended over two weeks, 6 days a week and two hours each day. During this time, each watano gives a presentation to the entire shirika covering their business and loan needs.

During the first disbursement three watano members receive their loan ("first lot loanees"). Four weeks later the remaining watano members ("second lot loanees) receive their loans. After the first year, all watano members receive their loans simultaneously.

Collection procedures. *All loans are collected and deposited in a Faulu Kenya/FHI account by the shirika.[2] Loan payments and Loan Security Fund (LSF) deposits are collected by the watano representative at weekly shirika meetings during which all the watano and the loan officer meet together. Meetings are held in the mornings Tuesday through Thursday, allowing time for payments to be deposited. Payments and bank account deposits are recorded in the Watano Receipt Book, and in Member Transaction Booklets (two copies each), and on multiple copy deposit slips obtained when the shirika representatives deposit payments in the Branch bank account. At the end of each week a period verification transaction record (PVTI) is prepared for each shirika. This record is brought by the loan officer to the next group meeting for their review.*

After the collection, the loan officer reviews the payments and notes if anyone has not paid. If someone has not paid, the group is given the option of making the members payment for her/him or accessing the Loan Security Fund.

Because it is not a legal entity, Faulu Kenya (like Faulu Africa) cannot have accounts in their name alone.

Refinancing policy. *To date, Faulu Kenya has not refinanced any loans and it does not have a refinancing policy.*

Loan loss reserves policy and portfolio at risk calculation. *Loans are provisioned on a flat rate of five percent of outstanding loan balance. An aging of arrears report is produced weekly, but it is not used to calculate provisioning.*

Table III-4. Faulu/Kenya Delinquency Rate (17 May 1997)

Arrears	Nairobi East	Nairobi Central	Nairobi West	Mt. Kenya	Faulu/Kenya
Amt. OLB ≥ 29 Days in Arrears	669,983	114,585	0	0	784,568
Amt. OLB ≥ 89 days in Arrears	183,987	0	0	0	183,987
OLB	7,674,558	14,518,114	2,774,980	1,835,766	26,803,418
50 Day Delinq. Rate	0	.01	0	0	.07
90 Day Delinquency Rate	.02	0	0	0	.01

Source: *Faulu/K Loan Officer Summary Monitoring Report May 5-17, 1997. Amounts are in Ksh. Ksh. 50=US$ 1.00*

Table III-5. Faulu/K Portfolio at Risk (90 Days or More), 1997

Month	Nairobi East	Nairobi Central	Nairobi West	Mt. Kenya	Faulu/Kenya
January	6.73%	1.54%	0%	n/a	3.75%
February	7.6%	.48%	0%	0%	3.6%
March	9,6%	.83%	0%	0%	3.98%
April	2.31%*	0%	0%	0%	.71%

Source: *Faulu/Kenya, Preliminary Monitoring Report*
** The drop in Portfolio at Risk reflects a write-off of Ksh 355,591 which was shifted to "Bad Debt."*

Sanctions or incentives used to control delinquency. *The Loan Security Fund (LSF) is the main incentive used to control delinquency. The LSF is used to cover missed payments or defaulting loans. Two levels of LSF guarantee are used:*

- ***Balancing off:*** *Using the borrower's own funds to repay a loan.*
- ***Tapping off:*** *Using the watano loan security funds to repay loans.*

If pre-loan LSF deposits are missed by any member in the shirika, an additional week is added to the pre-loan savings period before loan disbursal.

The branch staff as a whole review weekly reports together. When a repayment problem is identified an attempt is made to pinpoint the source of the problems. In the case of Nairobi East, the most salient problem area, several efforts have been made to encourage loan repayment. This included a visit by the operations manager to the area chief, Faulu Kenya informing the local police of the issue. In other areas, Faulu staff, including the branch manager and operations manager have met with the group chair to identify issues and then the group chair, in turn, communicate with the groups.

In addition, Ted Vail, the Faulu Africa Director, together with the Chair of the advisory board have met with the Provincial government to encourage them to put pressure on the local governments.

Faulu Africa and Kenya management staff note that there is "a very difficult repayment culture here in Kenya now." They note that the court system is designed for bigger institutions and that MFIs in Kenya are currently on "semi-legal" ground.

The three levels of control, in addition to the loan security fund, are the Original Loan Agreement, in which assets are pledged to group members, the recently introduced Affidavit, which reiterates the loan agreement in a more legalese form, and the use of an auctioneer, who collects and sells pledged assets.

Seizing of property is almost exclusively shirika members seizing the assets of defaulting co-members. In one case, Faulu/K and a group is jointly seizing assets (an automobile) but the ownership is unclear and it is uncertain if this will be successful. There have been some negative experiences related to seizing. For example, when goods are seized, some clients have reported to the police that they have been stolen. In one case the person doing the seizing, a former chairman of a disintegrated group, was threatened and consequently returned to his village for two months. Faulu/K has decided that in the future an auctioneer will be used to seize property. The auctioneer will go through the local chief to issue 14-day notice and obtain the assistance of the local police.

MFIs currently share a "black list" of defaulting clients. In addition, Faulu would like to work with other MFIs, via the emerging network, KEMFI, to determine an approach for defaulters, perhaps developing an exit strategy, or redlining policy for high default areas.

Immediate issues. *The most immediate problem facing Faulu/K is its arrears rate, which tends to be concentrated in one neighborhood of the Nairobi East Branch. The faltering repayment rate is believed to be the result of some general factors affecting all Microfinance Institutions (MFIs), most notably a fairly serious drought, that impacted heavily on the prices of certain basic food commodities, followed by heavy rains, and, consequently, households entering the Christmas season and new school year in January with little reserves.*

A more localized problem occurs in the Korogocho sub-area of the Nairobi East Branch. In that area, four of nine groups are defaulting. Outside of these groups, Ms. Wanjohi, Narirobi East Branch Manager, reports that repayment rate for the branch is in the area of 80 percent. Faulu/Kenya is undertaking serious efforts to control the problem and turn around the situation. These measures include legal action, reforming performing members of bad groups into closely watched new groups, and a university study of root causes. Five of these groups appear to be improving, in Faulu's view, and four continue to have problems. Three of these groups have been "disintegrated," with performing members being regrouped into closely watched groups. The fourth group is in the process of being disintegrated.

The reasons believed to be behind this default are the general problems noted above, and more specifically, the pull out of an NGO who, after a remarkably poor repayment rate, some speculate around 20 per cent or less, simply pulled up stakes and abandoning further efforts to collect any unpaid loans.

Defaulters interviewed in the university study gave some of the following reasons:

- *they don't see why they should repay when others don't*
- *drought*
- *school fees*
- *repayment terms*
- *discouraged because loss their own loan security funds from default of others*

Table III-6 gives a breakdown of repayment rates by branch.

Table III-6. Faulu Kenya On-Time Repayment Rate

Month	Nairobi East	Nairobi Central	Nairobi West	Mt. Kenya	Faulu Kenya
January 95	103.83	87.30			88.53
February 95	103.82	92.25			101.23
March 95	106.82	97.53			102.17
April 95	106.21	93.03			94.52
May 95	101.00	97.76			98.31
June 95	106.42	113.05			111.04
July 95	98.30	116.18			108.75
August 95	110.50	106.85			108.27
September 95	105.85	119.76			115.33
October 95	93.88	116.46			106.49
November 95	104.83	101.07			102.62
December 95	95.76	106.72			101.56
1995 Average	**103.10**	**104.00**	**0**	**0**	**103.24**

Month	Nairobi East	Nairobi Central	Nairobi West	Mt. Kenya	Faulu Kenya
January 96	95.79	102.66			99.25
February 96	96.16	99.27			97.78
March 96	90.36	108.69			98.83
April 96	73.01	122.19			94.51
May 96	91.50	89.78			90.59
June 96	92.72	97.09			95.29
July 96	94.62	98.98			97.02
August 96	73.66	117.53			94.65
September 96	72.63	128.78			99.77
October 96	60.70	83.83	101.40		74.24
November 96	48.42	83.45	106.42		69.31
December 96	42.01	95.38	59.06		63.84
1996 Average	**77.63**	**102.30**	**88.96**	**0**	**89.59**
January 97	33.43	55.82	113.05		45.65
February 97	30.03	75.56	61.56		47.56
March 97	31.90	84.42	166.79	121.61	53.29
Average year to date	**31.79**	**71.93**	**113.8**	**121.61**	**48.83**

Because of the current environment, Faulu/Kenya says that it is going through a self-imposed slow-down and they are currently only issuing loans to good, current groups. Again, a major reason for this slow down is the increasing arrears rate becoming most dramatic beginning in November of 1996. However, another reason given for the slow down are factors related to the up-coming national elections. The Government of Kenya is currently dispensing grants through a Youth Development Fund (we were told 500,000,000 Ksh.), and a Women's Development Fund (amount not determined). These are seen as politicized funds, that are given out for group projects. The groups might be formed for political reasons and/or simply to access these funds. Faulu management is concerned that they will not be able to distinguish these groups from non-political, sustainable groups. They are also concerned that the groups will not be able to distinguish Faulu/K funds from political funds.

Comments on portfolio soundness. At this point Faulu/K's portfolio is shaky. Repayment rates are low and portfolio size is shrinking. Faulu is optimistic that a turn around is imminent, and it is aggressively pursing delinquent borrowers.

At the same time Faulu is questioning whether it has the proper loan product and whether they are putting unreasonable demands on their loan officers if it is not the proper product.

A study on the current delinquency problem is finding that Faulu's tapping procedure is a likely cause of borrower frustration and drop out. Good borrowers are being penalized, and can only recover their lost savings by defaulting on loans and dropping out of the program. After repeated tappings, even borrowers who do repay loans find little incentive to expose themselves to this risk. Faulu is examining this issue.

A1c. Fixed Assets

Fixed assets are limited to computers, and office equipment that were donated and converted to "assets." As noted in the balance sheet above, "capital assets" are fairly large and are nearly all donor provided.

B. Liabilities

B1. Savings

Savings are confined to "Catastrophic Insurance Fund Premiums," "Loan Security Fund Deposits," "Other Liabilities," and "Amounts due to Related Organizations," totaling Ksh. 40.6 million. Faulu does not have the legal status to enable it to receive either passbook savings or time deposits beyond the forced savings requirements it requires of its borrowers (1% of total loan outstanding on a weekly basis for new borrowers, including an eight week build up; 25% of total loan requirement for repeat borrowers plus a 1% per week additional requirement). The savings element required from the borrowers is not relent, but is invested by Faulu/K in T-Bills, which appears to be a safe instrument for protection of borrowers savings. Interest earned from the T-Bills in which these funds are invested does provide a limited amount of lending capital.

B2. Concessionary Loans

Faulu does not make "concessionary" loans. The loans that are extended have what could be considered "market rate," around 62% per annum effective, and all loans extended are expected to be repaid on-time and in-full.

C. Equity

C1. Institutional Equity

Faulu does not have equity per se, but does have grant income from the Overseas Development Administration, some of which has been utilized to purchase office equipment. Faulu/K, and has received smaller amounts from USAID. However, this is not equity that could be easily utilized to leverage capital from commercial lenders. Property and equipment owned by Faulu, as of March 1997, including depreciation, is reported as being valued at about Ksh. 9.5 million. Faulu is actively pursuing expanded grant funding, but does not have commercial bank funds. Funds designated for loan capital from donors to Faulu are not leveraged at all; excess cash is invested in local banks, some in foreign currency. There have not been any equity investments in Faulu/Kenya to date.

C2. Capital Resources

Capital Resources are Ksh. 49.6 million in grants, with net retained surplus of Ksh. 34.5 million. The retained surplus would logically be from interest income on deposits, and T-Bill income. While grants and interest income have served Faulu well to-date, only top performance of the portfolio, and some good luck, will give them access to commercial sources.

D. Income Statement

Year-End 1996 Statement
(all in Ksh. USD1=Ksh. 50)

INCOME	
Service Charge on Loans	***14,699,997***
Loan Set-up Fees	***882,778***
Registration Fees	***105,531***
Client Transaction Booklet Fees	***77,083***
Client Seminar Fees	***187,542***
Total Operating Income	***16,405,894***
Investment Income	***6,792,162***
Total Income (Operations and Investment)	***23,198,056***
EXPENSES	
Personnel	***19,613,328***
Training and Evaluation	***1,691,258***
Travel	***2,431,658***
Occupancy	***3,976,650***
Office Operations	***3,510,546***
Equipment and Supplies	***1,394,181***
Other Expense	***139,751***
Loan Loss Provision	***454,488***
Total Operating Expense	***33,211,860***
Financial Costs:	
Bank Charges	***1,228,289***
Bonus Paid on Deposits	***3,044,901***
Exchange Rate Gain (Loss)	***(410,653)***
Total Financial Costs	***3,862,537***

Expensed Assets:	
Computers, Furniture, Equipment	***(4,177,774)***
Depreciation of Property (Up to Dec. 96)	***1,380,139***
Net Expensed Assets (Capitalized in Dec. 96)	***(2,737,635)***
Total Expenses	***38,454,536***
Net Income/(Deficit from Operations)	***(15,256,480)***
Grant Income Provided	***38,137,911***
Excess of Income Over Expenses	***22,881,431***
Grant Income for Loans	***17,461,088***
Excess of Operating and Grant Income over Expenses	***40,342,519***

Note: ***This Statement was published April 7, 1997, but is still awaiting external audit.***

D1. Revenue

D1a. Revenue Sources

The simplified chart above indicates for year-end 1996, operational and other expenses were about Ksh. 15,000,000 higher than operational income. However, that shortfall was clearly covered by a grant from the ODA. In the absence of the donor, the major forms of revenue come from interest rate charges (along with some other fees), and funds generated by having a forced savings component that is invested in government securities. The balance sheet above does indicate that Faulu/K is only covering, systemwide, around sixty percent of their expenses from interest income from loans.

D1b. Interest Rate Policy

Commercial Banks in Kenya are charging from about 16% per annum for prime customers. Lower level consumer loans are 22-30%. Both of these numbers are expressed as the effective APR, although there are some loan opening fees that do not appear in this calculation. The true cost of commercial loans, however, because of usuary laws, cannot exceed 32%.

Faulu/Kenya, like other NGOs in the country, are not capped by the usuary laws because they are not technically finance institutions and are not under the supervision of the Central Bank. While there are clearly some advantages to this situation, the net result is that technically the NGOs cannot relend savings.

Interest rate calculations and fee structures. ***According the information provided to the Assessment Team, the nominal rate of interest is 22% per annum. For example, a loan of Ksh. 10,000 extended for 26 weeks would require (along with principal repayments), interest payments of 1,112.32, which would be 22.25% on an annualized, nominal basis. Additional fees are also required, including:***

- ***Loan Set Up: Ksh. 200***
- ***Insurance: Ksh. 100***
- ***Loan Orientation: Ksh. 150***
- ***Registration: Ksh. 100***

These additional fees would raise the nominal rate (Ksh. 1,112 interest plus Ksh. 550 in fees) to slightly more that 33% nominal per annum or slightly over 62% effective on an annualized basis. These rates are highly competitive with the informal market, which appear to be in the 150-400% per annum range. Additional funds (Loan Security Funds) are collected from borrowers but are accessible (on a twice per basis) for borrowers that repay and/or leave the system. Those funds (LSF) are returned with an 8% per annum markup. While this rate may be slightly lower than commercial rates, it does not infer a significant loss to the client.

On time repayments, country-wide, have dropped precipitously during the period between September of 1996 and March of 1997; currently on-time repayments of Faulu as a whole are slightly over 50%. Performance at the Mt. Kenya branch is still solid, although the program has only recently been launched.

Yield on portfolio (33%)	*Year End 1996 Income from Loan Portfolio*	*16,405,894*
	Average Loan Portfolio for Period	*49,694,145*

D1c. Consultant's Comments on Interest Rates and Related Issues

Faulu/K certainly has an interest rate structure that could allow them to be at least organizationally self-sufficient within a reasonable time frame. With a spread of 62%, more or less, from 0% grant money, a number of other NGOs world-wide have been able to at least cover their operating costs from interest income. Faulu/K also has a fairly broad ranging loan product that starts as low as Ksh. 1,000 (about USD 20). The countrywide amount of loan per borrower is slightly less than USD 300 at this time, but the system is designed to grow with the borrower with loans being later available for up to the equivalent of USD 2,000. It would seem that Faulu's general approach is compatible with USAID's policies and directives, but it will clearly require continuing assistance in the short-term. However, current portfolio performance falls below USAID's funding guidelines.

D2. Cost of Funds

At present, Faulu not have a cost of funds other than the forced savings (8%), but those forced savings are reinvested in government securities that yield a higher return than the cost of obtaining them, with a spread of about 10-12% per annum.

D3. Operating Expenses

Salary policies. Loan officers begin at 15,000 Ksh. per month (gross), and after a six-month probation are eligible for a salary increase to 18,000 Ksh. Performance appraisals are conducted on an unscheduled basis. These appraisals include self-evaluation. All but two loan officers currently earn 18,000 Ksh. per month. Of the remaining two, one loan officer earns 22,000 Ksh. and one 25,000 Ksh. The officer at 25,000 Ksh. has been with Faulu for four years. The current, near flat-rate salary schedule is perceived to be discouraging for some of the mid-term loan officers.

Faulu management feels their salaries are comparable to other development organizations, particularly at the entry level.

Salaries ("Personnel") costs were 19,613,328 Ksh, or about 59 percent of operating expenses in FY 96.

Incentives. *There is currently no loan officer incentive structure, and there appears to be no plan for one. However, there is concern about the career paths available to loan officers, and the ODA mid-term review recommended that the issue of professional rewards for the loan officers be pursued.*

We were told that an incentive program "is on everyone's lips." The concern is developing the proper incentive structure. In addition, Faulu/K follows certain Food for the Hungry policies, one of which is a disinclination, if not prohibition, against staff incentives.

Training. *Training is provided almost exclusively in house. The exceptions are community organizing training provided by Action Aid, and occasional in-country microfinance courses offered by Cranfield. Training and Evaluation for FY 96 was 1,691,258 Ksh, about 5 percent of operating expenses.*

Turnover. *As discussed in Section I, staff turnover is a concern. While management has been fairly stable, there is a high turnover among loan officer staff. One effort to deal with turn over is the hiring of relief (4) and trainee (5) loan officers who can quickly move into place when portfolio-carrying loan officers leave. In salaries alone this is costing Faulu/Kenya 162,000 Ksh. or about 3,240 per month.*

Loan officer cost efficiency. *Monthly travel costs of Loan Officers are as follows:*

- ***Nairobi East.*** *1,000 Ksh. / officer / month x 7 officers = 7,000*
- ***Nairobi Central.*** *2,000 Ksh. / officer / month x 9 officers =18,000*
- ***Nairobi West.*** *2,500 Ksh. / officer / month x 7 officers = 17,500*
- ***Mt Kenya.*** *3,200 Ksh. / officer / month x 7 officers = 22,400*

64,900

Monthly salary costs of Loan Officers are as follows:

28 x 18,000 =	*504,000*
1 x 22,000 =	*22,000*
1 x 25,000 =	*25,000*
	551,000

For 1996, total operating expenses 33,211,861 Ksh. ÷ 12 = 2,767,655 average per month

$$\frac{64{,}900 + 551{,}000}{2{,}767{,}655} = .22 = \text{estimated loan officer efficiency}$$

The estimate is based on 30 loan officers, and does not include additional costs for relieving officers or trainees. Also, operating expenses, being an average for last fiscal year, may be an under-estimate for current expenses. Using the same numerator, a ratio of .15 is obtained using March 1997 operating expenses (4,175,917 Ksh.). However, March expenses were somewhat

unusual, (25% higher than budgeted) because of costs such as attending the MicroCredit summit and site visits to Central America.

Client-to-loan officer ratio. ***The client to loan officer ratio is below Faulu/K's own targets. Faulu/K has set a target of 400 clients to loan officer, and 320 active borrowers per loan officer. Currently, the most active officers, the two most long term, each have about 280 clients. For the branches as a whole, the ratios of borrowers (current loans) to loan officer as of May 17 are given below (year that branch opened given in parentheses). Again, these figures do not account for trainees (5) or relieving loan officers (4):***

- ***Nairobi Central ('91-'92) 916/9 = 102 / officer***
- ***Nairobi East ('95) 537/7 = 77 / officer***
- ***Nairobi West ('96) 184/7 = 27 / officer***
- ***Mt Kenya ('97) 142/7 = 20 / officer***

D4. Net Result Prior to Donations

The bulk of the funds of Faulu are either in outstanding loans or government securities. Donations make up the majority of funds currently held. Without the donations of foreign donors, there would not be loanable funds nor sufficient operating capital for the NGO to continue operations. This is a common situation in the early years of an NGOs operations, but thus far there does not appear to be retained earnings because expenses far outstrip income (when donor funds are excluded).

D4a. Protection of Institutional Capital

Faulu/K appears to have taken prudent and necessary steps to prevent any broad-scale fraud or theft occurring. Inflation in Kenya is estimated at approximately 10% for 1996, which is not generally considered a major problem in development economies. Inflation is currently officially estimated at around 16% due to the recent drought. Devaluation has been occurring, but the donations received from foreign donors appear to be held in hard currencies up to the time of release to Faulu/K, so devaluation does not appear to have any desultory effect on Faulu/K to carry on their program.

D4b. Operational Sustainability

The Faulu/K organization at present is not financially or operationally self-sufficient. If this IGP grant is made, it should be required that Faulu/K submit a business plan that would show how progress to these objectives would be achieved.

SECTION IV
REASONABLENESS OF TARGETS

It was noted in the Executive Summary that the basic plan of Faulu/K is to receive $3.25 million over three years to allow them to add three branch offices, with commensurate staff. The document appears to be more of a grant proposal plan than a business plan. Excruciatingly detailed financial projections and costs were included in the proposal, but did not dwell much on client numbers nor touch upon expected repayment rates.

It is recommended that prior to concluding an agreement with Faulu/K under the IGP, a business plan that would show considerable progress to at least achieving operational breakeven be submitted. It seems more reasonable at this point in time for Faulu/K to resolve repayment problems and retaining current customers, bringing up client numbers/loan officers to levels that would allow them to reach a reasonable ratio between costs and expenses, and perhaps to concentrate funds from the agreement on a limited number of existing branches rather than going for country-wide expansion when many of their current problems are located in existing branches. Given the current resources of Faulu/K, a smaller and more limited grant could be made that could then be subsequently expanded if performance merits that expansion.

A. External Risks

An immediate external risks affecting Faulu/K is the increasing failure to repay loans.

A longer term issue is Faulu's inability to legally take savings and use savings for lending. At this time Faulu has no plans to find alternative lending capital other than donor funds or retained earnings. The Pro Forma Budget submitted with Faulu's business plan lists “Grant Income Needed for Loan Capital” on through 2006, the final year in the projections. A total of 425,287,825 Ksh. (about $US 8.5 million) is projected. When questioned on this, Faulu/Africa director said this was a mistake and should read “grants and commercial sources.” Bank charges projected are 7 percent of this figure. Investment income during this period (1997 - 2006) is projected to be 293,785,545 Ksh. ($US 5.86 million), and operating income 1.06 billion Ksh. ($US 21 million).

B. Organizational Growth

Faulu/K appears to be an organization with tremendous capacity. A great deal of effort and thought seems to have gone into the development of its MIS, internal control, and staff development. At the same time, Faulu/K does not seem to have a plan or model for growth, that is, how it will balance portfolio growth, branch expansion, and cost-recovery/operational self sufficiency.

A main concern is that Faulu/K focuses heavily on portfolio growth without an accompanying plan for how the organization will deal with serious current portfolio problems. The projections appear to be made almost in a vacuum.

There is not a serious plan for how Faulu/K will move away from dependency on donor funds.

The FHI/Faulu relationship does not appear to be a particular hindrance to organizational growth with certain exceptions. At this point, because Faulu is a program within FHI, and not a legal entity on its own right, it cannot maintain a bank account independent of FH. Presumably Faulu also cannot develop its own lines of credit independent of FH. This would not necessarily restrict Faulu in the short run.

FHI's policy against incentives prevents Faulu from exploring this option for keeping staff on board and providing incentive to staff to develop stronger loan portfolios, although the Director of Faulu/Africa has indicated some willingness to discuss the issue with FHI.

While this Assessment may have indicated some negative aspects to Faulu/Kenya’s operations, these aspects were identified with the purpose of assisting them in improving their operations and to develop a business plan that would be acceptable under the IGP. The organization still appears to be a potentially strong MFI, and could have their development considerably enhanced through a carefully administered IGP grant.

ANNEX A
LIST OF MICROSERVE PUBLICATIONS

1. *Microfinance Training Course Evaluation and Completion Report*, April 19, 1996.

2. Cary Wingfield Raditz, *Assessment of Microenterprise Support Institutions for USAID Sri Lanka: The Micro Enterprise Support Activity*, June 25, 1996.

3. Dale W. Adams y Fernando Cruz-Villalba, *Microfinance Workshop for the West Bank and Gaza Completion Report*, July 29, 1996.

4. Miguel A. Rivarola, *Evaluación de la Propuesta de Constitución del Fondo Financiero Privado para el Fomento de Iniciativas Económicas*, October 1996.

5. Mario Dávalos, *Evaluación y Análisis de la Fundación para la Producción (FundaPro)*, October 1996.

6. Ken L. Peoples, *Consideration of a Merger between the Sartawi Foundation and the Agrocapital Foundation*, November 1996.

7. Meliza H. Agabin, Jeanne Koopman, and Harunur Rashid, *Women's Enterprise Development Project: Mid-Term Evaluation Report*, December 1996.

8. Robert Boni, *Revisión del Sistema de Informática del Centro de Fomento a las Iniciativas Económicas*, April 1997.

9. Oscar Oswaldo Oliva V. and Barry Lennon, *The Organization for Women's Enterprise Development: Institutional Assessment Report*, June 1997.

10. Camilo Arenas, *Evaluación de Diligencia Propria de la Fundación Agrocapital*, June 1997.

11. Margaret Bartel and Heather Clark, *World Relief Corporation's Cambodia Gateway II: Institutional Assessment Report*, June 1997.

12. Camilo Arenas and Victor Fernández, *Evaluación de la Constitución Propuesta del Fondo Financiero Privado Agrocapital y Revisión y Evaluación de la Propuesta de ACDI*, July 1997.

13. Arelis Gomez and James Hochschwender, *PRO MUJER: Institutional Assessment Report*, August 1997.

14. Karl Jensen and Annica Jansen, *Faulu Kenya Institutional Assessment Report*, June 1997.